COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

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KeySpan Energy Delivery New England	)	**D.T.E. 03-86**
Petition for Approval of its Market Transformation	)	
Energy Efficiency Programs	)	
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	)	

COMMENTS OF THE
MASSACHUSETTS DIVISION OF ENERGY RESOURCES

INTRODUCTION

On April 30, 2002, Boston Gas Company, Colonial Gas Company and Essex Gas Company each d/b/a KeySpan Energy Delivery New England ("KeySpan" or "Company") jointly sponsored and submitted to the Department of Telecommunications and Energy ("Department") an Offer of Settlement concerning its five-year demand-side management market transformation plan with the Northeast Energy Efficiency Council, the Massachusetts Energy Directors' Association, the Massachusetts Community Action Association, Action, Inc., and the Massachusetts Division of Energy Resources (DOER) (jointly "the Settling Parties"). The Department on June 6, 2002 approved the Offer of Settlement. On April 11, 2003, KeySpan filed its Demand Side Management and Market Transformation Plan 2002-2007 Report on Program Details. The Company subsequently filed its Energy Efficiency Performance Summary for the period May 1, 2002 through April 30, 2003 ("Program Year One"), its Shareholder Incentive Calculations for Program Year One, and Final Budget for Program Year Two on August 18, 2003 for Department review and approval.

The Department issued its Notice of the Petition of KeySpan for Approval of its Market Transformation Energy Efficiency Programs, D.T.E. 03-86, on October 7. The DOER received this notice on October 14, 2003 and filed its Petition to Intervene Late on October 27, 2003.

THE DIVISION SUPPORTS THE HALF MILLION DOLLAR INCREASE IN RESIDENTIAL LOW-INCOME FUNDING

The DOER recognizes that there is a capacity for increased energy efficiency work within the residential low-income community. We likewise acknowledge the assessment that this under-served community can realize significant gains in energy efficiency by targeting increased spending in this sector. Along with other Non-Utility Parties to the Settlement, the DOER concurs with the Company's decision to increase the annual budget from $12,000,000 to $12,500,000 with the entire $500,000 increase allocated to residential low-income programs. As a result, the Program Year Two line item for Residential Low-Income will be increased from $2.7 million to $3.2 million.[1]

CONSISTENT WITH DTE RULINGS IN 98-100, THE NEW PROPOSED INCENTIVE STRUCTURE MORE CLOSELY ALIGNS PROGRAM ADMINISTRATORS' GOALS FOR ENERGY EFFICIENCY WITH THOSE OF RATEPAYERS

As a result of collaborative discussions, KeySpan, other stakeholders and the DOER have developed an incentive structure for KeySpan to use for the remainder of its Demand Side Management/Market Transformation Program for the years 2002-2007. The restructured performance incentive reflects more recent attention by stakeholders and others on peak demand-reduction efforts, energy-reduction efforts, and the on-going obligation to support the state's energy efficiency operational and programmatic goals. As we have with Program Administrators on the electric side, the DOER has supported a change in the calculation of the shareholder incentive. In its Order in 98-100, the DTE adopted the DOER's proposal that the three-month Treasury bill (3MT-Bill) be used as the index for the performance incentive. The DOER had argued that this index represented an approximation of the market valuation of an appropriate level of return on

[1] KeySpan Market Transformation/Energy Efficiency Programs D.T.E. 02-31. Company filing of August 18, 2003, Exhibit 4. Compare with Company <u>DSM and Market Transformation Plan 2002-2007 Report on Program Details</u>, dated April 11, 2003, Exhibit 1.

low-risk investments for the energy efficiency administrators. At the time of the DTE proceeding, the DOER estimated that the 3MT-Bill typically averaged between 4% and 6%, an adequate level of return to motivate the companies to deliver high quality energy efficiency services.

In late 2001 the 3MT-Bill dropped precipitously due to the volatility of the market. From April to December 2001, the 3MT-Bill rate fell from 3.97% to 1.72%, and then hovered at around 1.7% through September 2002. By December 2002, the yield on 3MT-Bills dropped to 1.21%. The Company has noted that for the period May 1, 2002 through April 30, 2003 that rate averaged 1.14%. The DOER believes that the 3MT-Bill has fallen to a level that no longer adequately motivates the energy efficiency administrators and consequently threatens the Legislature's intent to provide high quality energy efficiency programs to ratepayers.

The DOER supports the Company's request to substitute a rate of 4.25% for the 3MT-Bill rate in Program Year One and for a subsequent increase to 5% for Program Years Two through Five. In exchange for our support for this deviation from Section 5 of the Department's 98-100 Guidelines, KeySpan has agreed to provide better program reporting, greater program transparency and greater efficiency. The Company agreed to have metrics associated with actual energy savings in terms of therms avoided; to put in place better evaluation tools that would be used to validate the Company's savings claims; and to demonstrate value by delivering programs in a cost-effective manner.

The DOER concurs with the Company's request to pass to a new performance incentive structure. The Division agrees that for Program Year Two, the Threshold Level should be set at 70%. Once the transition has occurred, we embrace the proposal to reestablish Threshold Levels at 75% for Program Years Three through Five. In a similar fashion, the Division recommends that the Department lower the upper bound of the incentive level for exemplary performance to 110 Percent of Design Level for Program Years Two through Five. The Guidelines specify 125% as the upper bound. Over the past five years, both the efficiency programs and the ability to establish credible postprogram impact evaluation results have matured, providing dramatic improvement in predicting, assessing, and evaluating program performance.[2]

This maturation of program services and evaluation has lessened the need to maintain such a wide band above the Design Level incentive. Lowering the Exemplary Level also reduces the exposure to ratepayers for performance incentive payments to the Program Administrators, potentially making those funds available for expenditure on customer efficiency program activities. This change, coupled with the proposed 4.25%, then 5% after-tax Design Level incentive rate, provides Program Administrators with a meaningful performance-based incentive that does not detract significantly from program resources meant to be invested in energy efficiency measures for customers.

Consistent with these facts as presented and our discussions with the Company, the Division of Energy Resources supports KeySpan's petition for approval of its Market Transformation Energy Efficiency Programs in the instant proceeding.

Respectfully submitted,

Steven I. Venezia
Deputy General Counsel

cc: Thomas O'Neill, Esq.

[2] Furthermore, in the most recent Report on Benefit/Cost Analysis of KeySpan's Energy efficiency Programs, dated April 30, 2002 and submitted to the Department as part of its Offer of Settlement, the overall ratio for all programs is between 1.85 and 2.45. This net benefit ratio is exclusive of participant non-resource benefits.